

Ministry of Agriculture and Food

Property Assessment and Taxation of Farm Real Estate in Ontario

(Replaces Factsheet "Farm Property Assessment and Taxation in Ontario," February 1981)

W. van Vuuren, School of Agricultural Economics and
Extension Education, University of Guelph

G.W. Lentz, Economics Branch

URBAN DOCUMENTATION CENTRE
RESEARCH UNIT FOR URBAN STUDIES
McMASTER UNIVERSITY
HAMILTON, ONTARIO

ASSESSMENT

The assessment of property for taxation purposes is a complex matter and achieving fairness is a major objective associated with property assessment. In order to reduce certain problems associated with assessment and to impart more fairness in the assessment process, the provincial government has legislated and subsequently amended the Assessment Act of Ontario and instituted several programs.

HISTORY OF PROPERTY ASSESSMENT

Prior to 1970 property assessment was carried out by local government. Different assessment procedures had developed over the years resulting in unequal assessment among different municipalities. This led to considerable difficulty in determining provincial transfer payments to local governments. As a result, in the 1960's, much local dissatisfaction with the prevailing system emerged, particularly in areas with increasing urban development. To establish increased order in this field, the assessment function was transferred to the provincial government as of January 1, 1970.

The first order of business was to put all real properties on a uniform assessment basis by assessing all properties at market values with uniformly and equitably applied methods and standards. This process was intended to be completed by 1975. The assessed values would be maintained at market values afterward by periodically updating the assessment roll.

Under the old system, whereby the assessment roll was not periodically updated, great inequalities in assessment of an individual property relative to other properties had emerged. Such inequities would be ironed out under market value assessment and the result would be a redistribution of taxes among property owners.

When the Province assumed the assessment function in 1970, all assessment rolls were frozen at existing values. Assessed values were to be adjusted for improvements or erection of new structures exceeding \$2,500. No adjustments were made for 1970 market values.

Although market value assessment was to be completed by 1975, province-wide, it has been deferred indefinitely. However, the Minister has the power to proclaim certain areas to be assessed at market values. This occurred, for example, in Bruce and Grey counties in 1973 and 1974, and in Muskoka and Parry Sound in 1980.

INEQUITIES IN ASSESSMENT

Even though the assessment rolls were frozen in 1970, these assessed values do not reflect 1970 market values. The values in certain municipalities were established in the 1930's or 1940's and for others in the 1950's or 1960's. Great differences among municipalities therefore existed and remain today. The possible inequities in assessment are threefold:

1. Among properties in the same property class within a municipality;
2. Among property classes within a municipality; and
3. Among municipalities.

The Assessment Act and its amendments contain two sections which attempt to alleviate two of these inequities. Section 63 can be used to cure inequities among properties in the same property class within a municipality, and Section 55 is used to cure inequities among municipalities. There is no mechanism to cure inequities among property classes within the municipality.

MARKET VALUE ASSESSMENT (Section 63 of the Assessment Act)

Section 63 establishes a system which the council of a municipality may follow to make changes in assessment within any property class. If the municipality believes there are large differences in assessment within a property class, the council may request the Minister to authorize reassessment in order to even out inequities in assessed values of individual properties within a property class. The municipality may request reassessment for one property class only or for all classes; in practice, however, when this has been implemented, all classes have been reassessed.

Procedures for Reassessment The procedure to accomplish reassessment is to apply current market values to properties on the assessment roll. The desired result is that the ratio of the assessed value on the rolls to the market value should be similar for all properties within a particular class. The total of the revised assessed values of all properties within a particular class in a municipality will remain unchanged, but some individual properties will increase in value and some will decrease. The procedure is explained for an arbitrary municipality with the help of Table 1.

The procedure used to reassess properties within a class is done in two steps. Step one establishes the ratio of total current assessed value to the estimated market value for each property class. For example, in Table 1 the total current taxable assessment for farm properties is \$1,000,000. The estimate of market value is \$3,571,430. Therefore the ratio is $1,000,000 \div 3,571,430$ or .28.

Table 1. Total Assessment, Estimated Market Value, and Resulting Ratio, by Property Class for a Hypothetical Municipality in Ontario

Property classes	Total current taxable assessment (a)	Total market value estimate (b)	Ratio (a ÷ b)	Total revised assessment after Section 63
	\$	\$	%	\$
Residential, 1-6 units	2,644,067,700	8,813,559,000	30	2,644,067,700
Multi residential, 7+ units	5,000,000	8,333,330	60	5,000,000
Commercial	8,500,000	18,888,890	45	8,500,000
Industrial	8,200,000	16,400,000	50	8,200,000
Farm	1,000,000	3,571,430	28	1,000,000
Total	2,666,767,700	8,860,752,650		2,666,767,700

Step two of the reassessment process is to apply the average ratio of the property class to the estimated market value for each individual property in that property class (Table 2). In this example, for farm properties the ratio is .28, (see Table 1). A new taxable assessed value for each property is obtained by multiplying each property's estimated market value by the average ratio, .28. The new total assessment remains unchanged, but farm property 'A' is adjusted downwards, and 'B' and 'C' are adjusted upwards.

Table 2. Computation of Reassessed Property Values Under Section 63 of the Assessment Act of Ontario*

Properties in a class	Previous assessed value (a)	Market value (b)	Ratio (c)	Assessed value after Section 63 (bxc)
	\$	\$		\$
A	520,000	1,517,859	.28	425,000
B	280,000	1,071,428	.28	300,000
C	200,000	982,143	.28	275,000
Total	1,000,000	3,571,430	.28	1,000,000

*The ratio of current assessed value to market value is .28 for farm properties. See Table 1 for the derivation of this figure.

After reassessment under Section 63 the assessed value of each property bears the same relationship to its estimated market value. However, no tax shifts among prop-

erty classes have occurred. Each property class bears the same proportion of the total municipal tax burden following the Section 63 assessments as it did before. (In the example, farm properties still have a total assessment of \$1,000,000 after reassessment.) It is *within* a property class, where individual properties have had changes in assessment and therefore changes in taxes paid.

Implications for Agriculture In general, the effect of Section 63 on agriculture has been slight. However, there have been changes in certain parts of the Province. Tobacco land, for example, has decreased in value when tobacco rights were detached from the land and became transferable in 1974. The frozen assessed value on the roll reflected the value of the land and the inherent rights attached to the land. Reassessment under Section 63 resulted in decreased assessed values for tobacco land. Another example is the rapid price increase in certain organic soils relative to mineral soils (particularly in the Holland Marsh area). Reassessment under Section 63 resulted in higher assessed values for these soils relative to mineral soils. It has also been observed that in several parts of the Province the price of land without buildings has increased relative to the value of land with buildings. Since total assessment in the farm property class must remain the same in each municipality, there has been a shift in taxes from tobacco to other farmland, from mineral to organic soils, and from land with to land without buildings.

Section 63 may make a considerable difference for land that is no longer being farmed. Such idled land is designated residential under the Assessment Act. The transition from agriculture to idled land is usually not reflected on the frozen assessment roll. However, where Section 63 is applied, idled land is now included in the residential property class and taxed as residential land. In addition, market value for non-farm use is applied to such land in contrast to agricultural land where market value is based on farmer to farmer sales (Section 18).

EQUALIZED ASSESSMENT (Section 55 of the Assessment Act)

This section of the Act is designed to establish fairness in assessment among municipalities for equitably sharing costs and revenues among municipalities. It is believed that market values reflect the true values of the properties and that apportionment of revenues and costs among municipalities should be based on these values. It should be noted that market values are only used for apportionment purposes, not for changing individual assessments. This valuation process is called equalized assessment and is concerned with assessing the total value of all property classes combined, not with assessing individual properties.

The steps in deriving equalized assessment are as follows. For each property class a sample of properties is appraised at market value. The total assessed value on the roll for that sample of properties is then divided by the total market value of that sample. This provides a ratio for each property class, indicating how large the total sample assessed value on the roll is, in proportion to the total

sample market value. The total assessed value on the roll for each property class is then divided by this ratio in order to get equalized assessment for that property class. Adding up these equalized assessments of all property classes provides the total municipal equalized assessment. The equalization factor is obtained by dividing the total assessed value on the roll of all property classes by the municipal total equalized assessment.

In 1979 the equalization factors, frozen since 1970, were unfrozen and are now established annually and announced in the Ontario Gazette. They are used by the county clerk and the school board in apportioning costs. The proportion of the county and school costs that each municipality within a county or school district pays is equal to the proportion of the equalized assessment in that municipality relative to that of the county or school district. Moreover, equalization factors are used by the provincial government to apportion provincial grants to municipalities.

If the equalization factor for a municipality drops over time, relative to other municipalities, it is because there has been a faster increase in market values compared to other municipalities. A drop in the equalization factor relative to other municipalities indicates:

1. That municipality will pay a higher proportion of county and school costs compared to other municipalities in the county or school district. The resulting higher taxes are brought about by higher mill rates, and not by increased individual assessments; and
2. That municipality will ultimately receive lower grants from the Province.

Implications for Agriculture Section 55 can have important implications for agriculture. In the late seventies until around 1981, land values in rural areas increased faster than in urban areas. Therefore, equalized assessment in many rural municipalities increased faster than in urban municipalities, and as such the equalization factors for rural municipalities decreased. Counties with both urban and rural municipalities were affected the most. The share of school and county costs that those rural municipalities paid under equalized assessment was, therefore, increasing over time. However, the government has cushioned the potential tax shifts, but only on an *ad hoc* basis.

Lately rural land values have declined in some areas of the Province, probably at a faster rate than urban land values. This would have a decreasing effect on the share of county and school costs to be paid by rural municipalities.

AGRICULTURAL ASSESSMENT (Section 18 of the Assessment Act)

This section stipulates that all land shall be assessed at its market value. However, an exception is made for farmland. Farmland is assessed at its value for farm purposes only. This part of the Act has significance for farmland in the urban-rural fringe where land values for farmland are far in excess of the agricultural use values.

The market value for farmland is established by averaging farmer to farmer sales only. Since very few or no such sales occur in the urban-rural fringe, farmland values there are established by imputing a value of similar land

outside the fringe. The Property Assessment Program of the Ministry of Revenue has set up a system whereby farmland is divided into several categories based on soil quality classes, and into various climatic zones. Farmland in the urban-rural fringe of a particular quality and within a particular climatic zone is assigned the value of land outside the fringe of similar quality and located in the same climatic zone.

Farmland assessment has not been greatly affected by this section since the assessment rolls were frozen in 1970. It does become important in those municipalities where Section 63 is applied, and also in the computation of equalized assessment under Section 55. As well, in some urban-fringe areas assessed values of farmland on the assessment roll prior to 1970 were far in excess of their value in agricultural use. These values have since been corrected through an appeal process.

TAXATION

The end purpose of property assessment is to establish a tax base so that taxes may be levied for the support of county and municipal government and education. The average share of gross revenue of local governments in the Province emanating from property taxes has remained fairly constant over the last years at around 35 percent. However, the share of property taxes as the source of gross revenue for school boards has increased. In 1978, 43 percent of their gross revenue originated from property taxes, while this increased to 45 percent in 1980 and 46 percent in 1981.

MILL RATES

The rate at which property is taxed is the mill rate. A rate of 1 mill means \$1 per thousand dollars of assessed value. The mill rate is established for a municipality by:

1. Deducting government transfer payments from the approved township budget. The result is the total tax to be raised for municipal purposes; then,
2. Dividing the total tax to be raised by the total amount of assessment value in the municipality. The result is the mill rate.

Each property owner is then sent a tax bill containing the mill rate and the assessed value (tax base) of his property. These are multiplied to establish the taxes due on each property. The individual tax bill is usually broken down to give a complete list of the costs of all parts of the budget.

The same mill rate is not applied to all property classes in a municipality. A split mill rate was introduced in 1957. With subsequent modifications, the result is that the rate levied on commercial and industrial assessments exceeds those of residential and farm assessments by 15 percent for general municipal tax purposes and by 10 percent for school tax purposes.

EXEMPTION FROM TAXATION

According to Section 3 of the Assessment Act, all rural property in Ontario is liable to assessment and taxation. However, tax exemption is provided for several kinds of

properties. Farm woodlots are tax exempt, provided they do not make up more than 10 percent of a farm with a maximum of 20 acres in all. If the land ceases to be used for woodlots, the municipal council may adopt a by-law assigning a mill rate for that land and it will then be liable to taxation.

ONTARIO FARM TAX REDUCTION PROGRAM

This program was introduced in 1970 to help offset municipal taxes on farm property. The rebate equalled 25 percent of total farm taxes paid, until 1973, when it was raised to 50 percent. The Program is funded by the Ministry of Agriculture and Food and administered by the Ministry of Municipal Affairs and Housing based on assessment data provided by the Ministry of Revenue. Applications are mailed automatically unless the property taxes are under \$100. Such properties can still be eligible for the rebate if the taxes are \$20 or more and the property is integrally connected with the main farm operation. Rebate payments became taxable under the Federal Income Tax Act in 1981, and must be declared as taxable income.

Beginning with the 1984 taxation year, there will be substantial changes to the Program which is now permanent. The rebate will equal 60 percent of total farm taxes, providing the following eligibility criteria are met:

1. The owner is a Canadian citizen or permanent resident;
2. The property is assessed as farm for the taxation year to which the rebate applies;
3. At least 60 percent of the municipal taxes for the taxation year to which the rebate applies have been paid; and
4. The property is used as part of a farm operation that produces products with a gross value of \$5,000 in Northern and Eastern Ontario and \$8,000 in the rest of Ontario.

Northern Ontario is that area north of the southern boundaries of Haliburton and Muskoka. Eastern Ontario is that area east of the western boundaries of Northumberland, Victoria and Peterborough counties.

In calculating the gross production level, receipts from the sale of products taken off the farm woodlot such as logs, posts, poles, lumber or firewood can be included, along with Christmas trees and maple products which were already recognized as eligible products.

Another important change to the 1984 Program is the fact that farmers who cannot meet the gross production requirement due to circumstances beyond their control, such as abnormally low yields or abnormally depressed prices, can continue to remain eligible. Farmers who do not meet the production requirement due to illness, old age, or death of a spouse can qualify provided they are still living on the farm, have been eligible for the rebate for the preceding 10 years and their farm income exceeds off-farm income (excluding pension and investment income).

The 1984 Program also introduces a Farm Tax Rebate Appeal Board, consisting of 7 members from the farming community, to hear appeals from farm owners who feel they have been denied a rebate unfairly. The Board, however, will not have jurisdiction to consider farm assessment appeals. Assessment appeals will continue to be handled by the Assessment Review Board.

In addition to the rebate under this Program, farmers can continue to receive Ontario Tax Credits and Pensioner Tax Grants calculated the same way as in past years.

If the assessment of a farm property changes to non-farm, because it is being developed for residential, industrial or commercial use, the property no longer qualifies for the rebate. Further, the owner at the time the property ceases to be assessed as farm is obliged to repay to the Treasurer of Ontario those rebates, plus interest, received by him for that property in the preceding 10 years. This is an important repayment change which came into effect in 1983. Prior to 1983, the Program required repayment by the owner of all rebates paid in the preceding 10 years, regardless of whether he or a previous owner had received the rebates.